

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

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POSTAL RATE AND FEE CHANGES, 2000

) Docket No. R2000-1
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**REPLY BRIEF
OF
PARCEL SHIPPERS ASSOCIATION**

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TABLE OF CONTENTS

I.	While UPS's Initial Brief Provides an Interesting Theoretical Discussion of Potential Problems That Could Possibly Bias the Postal Service's Proposed Method For Estimating Parcel Post RPW, the Record Indicates That None of These Potential Problems Are Problems At All.....	1
II.	UPS's New Rate Design Arguments Are Without Substance.	2
A.	Mr. Glick's Unadjusted DBMC Cost Avoidance Model Is Appropriate.....	2
B.	UPS's New Argument, Which Is Not Sponsored by Any Witness, Regarding the Postal Service's DDU Cost Avoidance Has No Evidentiary Support And Defies Common Sense.....	3
III.	The Postal Service Initial Brief Distorts The Evidence To Fit Its Criticisms Of PSA Witness Karls Testimony On Oversized Parcels.	4

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- I. While UPS's Initial Brief Provides an Interesting Theoretical Discussion of Potential Problems That Could Possibly Bias the Postal Service's Proposed Method For Estimating Parcel Post RPW, the Record Indicates That None of These Potential Problems Are Problems At All.**

The initial brief of United Parcel Service (UPS) provides an interesting *theoretical* discussion of *potential* problems that could *possibly* bias the Postal Service's estimate of revenues, pieces, and weight (RPW) for the Standard (B) Parcel Post subclass. UPS Initial Brief at 66-78. What is noticeably lacking in the Brief, however, is any quantification whatsoever of the magnitude of problems that *actually* bias the estimate. This is quite remarkable considering that UPS's own witness, Mr. Sellick, spent much of his effort in this case quantifying the magnitude of these problems. UPS apparently does not want to admit what Mr. Sellick found. As is summarized below, Mr. Sellick's analysis conclusively shows that there are no significant errors in the Postal Service's RPW estimating method:

- To test whether parcels under one pound are ever mailed at Standard (B) rates, Mr. Sellick analyzed a set of more than 500 Plant-Verified Drop Shipment Verification and Clearance Forms (Forms 8125) and found that only two of these forms (or less than 0.4 percent of the forms reviewed) even suggested that parcels under one pound were mailed at any Standard (B) rate. Tr. 41/18066.

- Mr. Sellick performed a set of data quality checks on aggregated data to determine whether there were any errors in the Postal Service's Bulk RPW system and found an error rate of significantly less than one percent. Tr. 41/18064.
- Mr. Sellick then performed a set of data quality checks on a set of more than 600,000 detailed postage statement-level records to determine whether there were any errors in the data and again found an error rate of significantly less than one percent. Tr. 46-B/20652-20653.

When the UPS initial brief stated that the Postal Service's "hybrid DRPW/BRPW approach [is] untested and unreliable," it apparently overlooked the testimony of UPS witness Sellick. UPS Initial Brief at 67. Mr. Sellick's analysis, as well as the testimony of PSA witness Glick and USPS witness Prescott, clearly contradict UPS's brief and show that the Postal Service's method for estimating Parcel Post RPW is quite reliable.

II. UPS's New Rate Design Arguments Are Without Substance.

Rather than address all of the inaccuracies that UPS presented in the rate design section of its initial brief, this section of the PSA reply brief only addresses the new arguments made by UPS counsel that were not based on the testimony of any UPS witnesses. The remainder of the arguments made by UPS in its initial brief have already been completely rebutted by the testimony of PSA witnesses Glick (PSA-RT-1) and Wittnebel (PSA-RT-2) and in PSA's initial brief.

A. Mr. Glick's Unadjusted DBMC Cost Avoidance Model Is Appropriate.

First, in its initial brief, UPS argues that Mr. Glick's destination bulk mail center (DBMC) cost avoidance model overstates the DBMC cost avoidance because it does

not make two minor adjustments.¹ UPS Initial Brief at 88. This section shows why Mr. Glick's unadjusted model is appropriate and, if anything, understates the DBMC cost avoidance.

Mr. Glick's model estimates the DBMC mail processing cost avoidance as the difference in outgoing, non-BMC costs between DBMC parcels and intra-BMC parcels. Tr. 41/18074 (Glick). The implicit assumption underlying this model is that DBMC parcels and intra-BMC parcels incur the same amount of cost at the destination BMC. The Commission should therefore only make UPS's downward adjustments to Mr. Glick's DBMC cost avoidance estimate if it believes that DBMC parcels incur more costs at the destination BMC than do intra-BMC parcels. As explained below, this clearly is not the case and therefore UPS's proposed adjustments should be ignored.

Specifically, the models used by UPS's own witness – Mr. Luciani -- to estimate the DBMC cost avoidance indicate that DBMC parcels incur a much smaller amount of costs at destination BMCs than do intra-BMC parcels.² What this indicates is that the DBMC mail processing cost avoidance is larger than estimated by Mr. Glick, not smaller. This is because Mr. Glick did not take any credit for the significant cost avoidance that occurs at destination BMCs. Again, it appears that UPS did not even review the testimony and models presented by its own witnesses when preparing the initial brief.

B. UPS's New Argument, Which Is Not Sponsored by Any Witness, Regarding the Postal Service's DDU Cost Avoidance Has No Evidentiary Support And Defies Common Sense.

Since all of Mr. Luciani's arguments regarding the sack shakeout and unloading costs incurred by destination delivery unit (DDU) parcels were completely rebutted by

¹ Even if UPS were correct in its argument, these two adjustments are unimportant because they reduce the Postal Service's DBMC cost avoidance estimate by less than two cents. $(\$2,018,000 \times 36\% + \$902,145) / 97,724,531 < \0.02 . USPS-T-26, Attachment F.

² In fact, DBMC parcels incur ten cents less costs at the destination BMC than do intra-BMC parcels. USPS-T-26, Attachment A at 10, 13.

PSA witness Wittnebel (PSA-RT-2), UPS apparently decided to propose a new argument in the UPS initial brief. This new argument is neither supported by any evidence on the record nor is it consistent with common sense. Specifically, in its initial brief, UPS argued that DDU parcels incur more costs for moving "containers into the parcel sortation area," UPS Initial Brief at 81, than do DBMC parcels, the rate category from which the DDU cost avoidance is calculated.

What UPS failed to take into account is that containers of DBMC parcels must also be moved to the parcel sortation area. Therefore, the DDU cost avoidance associated with moving containers to the parcel sortation area, which must be calculated as the cost incurred by a DBMC parcel minus the cost incurred by a DDU parcel, is zero. Therefore, the Postal Service was correct in ignoring these costs in developing its DDU cost avoidance estimate. Not only is UPS' argument incorrect theoretically and unsupported by the record, it must be noted that UPS' assumption that it takes a 60-second round-trip to move a container to the parcel sortation area, UPS Initial Brief at 81, is just that – an assumption -- and therefore should not be viewed as an actual estimate upon which rates could be based.

III. The Postal Service Initial Brief Distorts The Evidence To Fit Its Criticisms Of PSA Witness Karls Testimony On Oversized Parcels.

PSA witness Karls testified that the evidence in the real world suggests that the average cube of an oversized parcel is more like 6 cubic feet than the 8.04 cubic feet the Postal Service used. The Postal Service initial brief completely distorts not only witness Karls testimony, but that of its own witness. USPS claims that Mr. Karls "uses a theoretical mathematical sample" to derive a cube of 6. USPS Initial Brief at VII-112. Mr. Karls did derive mathematically a minimum and maximum cube for an oversized parcel, limits that the Postal Service did not dispute. Tr. 13/5240. Witness Karls

pointed out that the mean of the two extremes would be a cube of 6. However, his evidence that the actual cube is more like 6 than the Postal Service's 8 cubic feet is based upon the cube of the hundreds of thousands of oversize parcels actually shipped by PSA members. The USPS brief claims USPS witness Eggleston testified that a lower average cube, while possible mathematically," . . . would mean that there must be a preponderance of long, thin parcels, as opposed to more regularly shaped parcels." (Tr. 13/5241). USPS Initial Brief VII-112. Ms. Eggleston did not so testify. Rather, when asked whether her 8 cubic foot average wasn't well up in the possible range, she responded that, based on the math, ". . . I would imagine that it is much more unique to have a long thin parcel than it is to have a parcel that has a more rectangular normal shape to it." Tr. 13/5241.

The USPS brief also claims that Ms. Eggleston testified that ". . . if the average cube were as low as witness Karls suggest (sic), she would have considered changing the cost methodology to take account of the added difficulty of handling such parcels. Tr. 13/5238-9." Again, that definitely is not what Ms. Eggleston testified to. What she actually said was: "If I had figured out that these oversized parcels were mainly small cube parcels, which would mean they'd have to be the big, long, thin parcels, they don't have a large cube, but they take up a lot of space." Tr. 13/5238. Nowhere did she say that Mr. Karls average cube of 6 was the type of smaller cube parcel which would have to be "big, long, thin." This is again another Postal Service distortion of the testimony.

The fact is that a 6 cubic foot parcel can be a perfectly regular shaped parcel. To illustrate: a parcel that measures 1.8 feet by 1.8 feet by 1.8 feet, in other words, a perfect cube, will have a length and girth measurement of 108 inches, which makes it

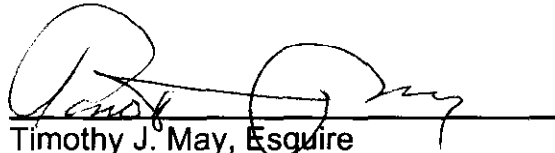
an oversize parcel; and such a parcel will contain 5.83 cubic feet, less than witness Karl's average of 6 cubic feet. A perfectly cubed parcel bears no resemblance to the long, thin parcels alleged in the USPS initial brief. Not a single word of Ms. Eggleston's testimony cited by the Postal Service brief has reference to a 6 foot cubic parcel, the size parcel which witness Karls claims is the average.

What this issue comes down to is whether the Postal Service's miniscule sample of oversized parcels, a total of 64 pieces, is a more reliable indicator of the typical oversized parcel than the actual cube measurements of Fingerhut's 169,000 oversized parcels and CTC's sample of all oversized parcels tendered to them by their customers on a typical day. The Postal Service brief claims Mr. Karls' cube is not derived from a random sample, but rather from only two shippers, one of which (Fingerhut) did not send a single oversized parcel via the Postal Service. USPS Initial Brief at VII-113. Fingerhut did not send any of their oversized parcels via the Postal Service because the rates are exorbitantly high, which is why the Postal Service has so few oversized parcels and, probably, why its sample was so small. The CTC data was an actual census of the oversized parcels of all of its customers on a given day so that the CTC data do not represent just one shipper; and that one day's survey contained 5 times the number of parcels in the Postal Service sample.

The Postal Service claims that its sample was statistically valid because it was "random," and that Mr. Karls' is invalid because it was not "random." This claim glibly overlooks the fact that the USPS sample was so small as to be statistically insignificant, whereas Mr. Karls' measurements were performed on such a large volume of oversized

parcels that his cube is the better evidence of the actual average cube of oversized parcels.

Respectfully submitted,

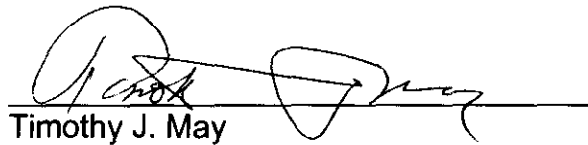
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read 'Timothy J. May', is written over a horizontal line.

Timothy J. May

Dated: September 22, 2000